

Message Text

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USDOC FOR MAJOR EXPORT PROJECTS DIVISION

E.O. 11652: N/A
TAGS: BENC, RP
SUBJECT: MAJOR PROJECT: MANILA PAPER MILL

REF: A. STATE 159612, B. MANILA 10095

1. SUMMARY. FOLLOWING IS INFORMATION ON MANILA PAPER
MILL PROJECT REQUESTED IN REFTEL A. END SUMMARY.

2. PROJECT BACKGROUND. PROJECT WAS INITIALLY PLANNED
AS A PULP MILL USING BAGASSE (FROM SUGAR CANE STALKS)
AS RAW MATERIAL BUT WAS ABANDONED IN EARLY 1975 BECAUSE
OF ANTICIPATED RAW MATERIAL SHORTAGE IN FAVOR OF A PULP
MILL USING HARDWOOD MATERIALS. THE HARDWOOD PULP MILL
WAS SUBJECT OF SGV ECONOMIC FEASIBILITY STUDY MADE IN
1975, BUT LATER PLANS INCLUDED A PAPER MACHINERY LINE
WITH DESIGN CAPACITY OF 250 TONS PER DAY (TPD) OF LINER
BOARD AND 150 TPD OF BOOK, WRITING AND PRINTING
PAPER. THE SGV IS NOW UPDATING AND REVISING ITS
FEASIBILITY STUDY AND IS EXPECTED TO SUBMIT IT IN 60
DAYS. THE NEW ESTIMATE OF THE TOTAL PROJECT COST,
INCLUDING THE PAPER MILL, IS \$140 MILLION.

3. RAW MATERIAL SUPPLY: MANILA PAPER MILL HAS NO
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FOREST CONCESSION. THE LAND IT OWNS (REFTEL A) IS THE
80-HECTARE PLANT SITE. HOWEVER, IT HAS A SIGNED
CONTRACT FOR SUPPLY RIGHTS OF PULPWOOD FROM BUTUAN
WOOD PRODUCTS, INC. WHICH WILL ACT AS THE SELLING ARM
OF WOOD CONCESSIONAIRES. CONTRACT COVERS ABOUT 138,000
HECTARES OF CONCESSION AREA. ACCORDING TO MARCELINO TY,
EXECUTIVE VICE-PRESIDENT, THIS SUPPLY SOURCE

WOULD BE GOOD FOR 14 YEARS. IN ADDITION, THEY EXPECT THEIR APPLICATION FOR AN INDUSTRIAL CONCESSION, COVERING 98,000 HECTARES OF LOGGED OVER AREAS, TO BE APPROVED WITHIN THE "NEXT FEW MONTHS", ALTHOUGH TY SAID UNCLASSIFIED

GOP OFFICIALS HAD PROMISED APPROVAL BY THE END OF JUNE. RAZOR CLEAR CUTTING, THE FIRM PROPOSES TO REPLANT THE AREA WITH FAST-GROWING SPECIES FOR ITS LONG RUN SUPPLY OF PULPWOOD FOR THE MILL. MANILA PAPER MILL PLANS TO IMPORT ON ITS OWN LONG FIBER FOR THE PAPER MILL. MANILA PAPER OFFICIALS SOUND CONFIDENT THAT NO PROBLEMS ARE LIKELY IN THIS ASPECT OF THE PROJECT.

4. FINANCING. AS EARLY AS FEBRUARY 1975, A BUSINESS DAILY REPORTED THAT MANILA PAPER MILL WAS NEGOTIATING WITH CREUSOIT-LOIRE ENTERPRISES/ESCHER WYSS OF FRANCE AND ATAKA & CO. OF JAPAN FOR PESOS 600 MILLION (\$83 MILLION) IN LONG TERM LOANS TO FINANCE 85 PCT OF PROPERTY PLANT AND EQUIPMENT NEEDS OF THE PROJECT. A PROPOSED MARKETING AGREEMENT BETWEEN MANILA PAPER MILL AND ATAKA & CO. LTD. OF JAPAN WAS ALSO REPORTED TO BE "UNDER STUDY", FOR ATAKA TO ACT AS THE SOLE EXPORT MARKETING OUTLET IN JAPAN FOR THE PULP OUTPUT OF THE PROJECT NOT ABSORBED BY MANILA'S OWN PAPER MILL. ENGR. ELISEO SINGSON, VICE-PRESIDENT FOR OPERATIONS, CONFIRMED THAT UNCLASSIFIED

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OFFERS WERE RECEIVED FROM THE FRENCH AND JAPANESE FIRMS BUT THEY NEVER GOT TO THE TALKING STAGE. HE DENIED KNOWLEDGE OF A MARKETING AGREEMENT BEING CONSIDERED AT THE TIME. SINGSON GAVE THE IMPRESSION THAT HIS COMPANY HAS CHANGED PLANS AND DIRECTION SINCE 1975, AND THAT THEY ARE ENTERTAINING PROPOSALS AND OFFERS ON NEW GROUNDS. HE CONFIRMED THAT ALL OF THE FIRMS LISTED REFTEL B HAVE SUBMITTED PROPOSALS, AND THAT "MOST" OF THE PROPOSALS INCLUDE FINANCING.

5. BOTH SINGSON AND TY EXPRESSED PREFERENCE FOR DOLLAR-DENOMINATED PROPOSALS, BUT ONLY ONE FIRM HAS SUBMITTED A STRAIGHT-DOLLAR OFFER, "FROM FINLAND" (PROBABLY ECONO), WHICH PROBABLY IS THE FAVORED FIRM. HOWEVER, THEY WERE NOT ENTHUSIASTIC ABOUT A POSSIBLE EXIMBANK FINANCING BECAUSE REQUIREMENTS ARE "TOO MANY". A FOUR-CURRENCY PROPOSAL (YEN, DEUTSCHMARK, SWISS KRONER AND FRENCH FRANC) DID NOT RECEIVE HIGH PRIORITY BECAUSE MANILA PAPER OFFICIALS THOUGHT A MULTI-CURRENCY EXPOSURE IS TOO RISKY.

6. SINGSON SAID A MR. BACHELY OF INTERNATIONAL FINANCE

CORPORATION TOLD HIM IN A RECENT VISIT THAT THE IFC "IS WILLING TO FINANCE THE WHOLE PROJECT," BUT SINGSON DID NOT ELABORATE. REPRESENTATIVES OF BROWN AND ROOT, RUST ENGINEERING AND DORR OLIVER APPEARED TO HAVE ASSURED SINGSON THAT THEY COULD FIND SUITABLE FINANCING, WITH THE LAST TWO FIRMS REPORTEDLY PREPARING A JOINT OFFER.

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WHILE OTHER ITEMS IN THE CHECKLIST (REFTEL B) REMAIN IMPORTANT, FINANCING IS PARTICULARLY CRUCIAL, THOUGH IT APPEARS THAT IT HAS BECOME LESS OF A PROBLEM. LOCAL COUNTERPART FINANCING WOULD PROBABLY BE MADE BY ASSOCIATED CITIZENS BANK, WHICH IS 80 PCT-OWNED BY THE TY FAMILY.

7. SCHEDULE TIMETABLE. IN CURRENT TIMETABLE SIGNING OF SUPPLY CONTRACT AND THE CONTRACT FOR FINANCING PACKAGE EXPECTED BY END OF THE YEAR. SINGSON SAID THEY COULD ACCEPT PROPOSALS UNTIL END OF JULY. DEADLINE APPEARS TO BE TIGHT, BUT SINGSON SAID BROWN AND ROOT, RUST AND OLIVER ARE FULLY AWARE OF THE SITUATION AND ARE EXPECTED TO SUBMIT THEIR PROPOSALS BY DEADLINE TIME. THE PLAN IS TO SELECT THE TOP 3 PROPOSALS BY THE END OF AUGUST AND SCHEDULE NEGOTIATIONS TO DISCUSS DETAILS OF EACH PROPOSAL BY SEPTEMBER. APPROVAL OF THE DEVELOPMENT BANK OF THE PHILIPPINES WILL BE SOUGHT AFTER THE PROPOSALS HAVE BEEN EVALUATED AND A GENERAL CONTRACTOR SELECTED.

8. MARKETING. SINGSON WAS OPTIMISTIC ON PROJECT'S MARKETING PROSPECTS IF THE ASEAN NEWSPRINT AND PAPER MILL PROJECT IS PUSHED THROUGH, SAYING THAT THE MANILA PAPER PROJECT WILL BE GEARED FOR THE DOMESTIC

MARKET, WHICH IS "STILL STRONG." THE ASEAN MARKET IS
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ABOUT 1,000 TONS PER DAY, AND HE EXPECTS THAT MOST OF
THE ASEAN PAPER MILL'S OUTPUT WILL BE EXPORTED.
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